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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

ORIGINAL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 **COMMISSIONERS**

10 BOB STUMP, CHAIRMAN

11 GARY PIERCE

12 BOB BURNS

13 SUSAN BITTER SMITH

14 BRENDA BURNS

Arizona Corporation Commission

DOCKETED

JUN 18 2014

DOCKETED BY

15 IN THE MATTER OF THE APPLICATION
16 OF MT. TIPTON WATER COMPANY,
17 INC. FOR A PERMANENT INCREASE IN
18 ITS WATER RATES AND CHARGES

DOCKET NO: W-02105A-13-0415

19 **NOTICE OF FILING REJOINDER**
20 **TESTIMONY**

21 Mt. Tipton Water Company, Inc. ("Company") hereby files the following
22 rejoinder testimony in support of its rate application by Sonn Rowell. See Attachment 1.

23 Michelle Monzillo continues to maintain the same positions asserted in her
24 rebuttal testimony previously submitted, including the positions relating to Best
25 Management Practices and use of the Hook-Up Fee account funds.

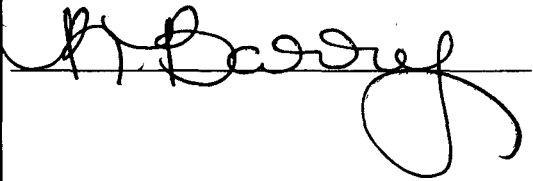
26 RESPECTFULLY SUBMITTED this 18th day of June, 2014.

27 **MOYES SELLERS & HENDRICKS LTD.**

28
Steve Wene

1
2 Original and thirteen (13) copies
3 of the foregoing filed this
4 18th day of June, 2014 with:

5 Docket Control
6 Arizona Corporation Commission
7 1200 West Washington Street
8 Phoenix, Arizona 85007

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Attachment 1

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 **COMMISSIONERS**

4 BOB STUMP, CHAIRMAN

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8 BOB BURNS

9 APPLICATION OF MT. TIPTON WATER
10 COMPANY, INC. FOR A PERMANENT
11 INCREASE IN ITS WATER RATES

**REJOINDER TESTIMONY OF
SONN S. ROWELL**

12
13
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20
21 **Q-1 Are you the same Sonn S. Rowell who provided testimony in the application**
22 **and Company Rebuttal?**

23 **A-1 Yes.**

24 **Q-2 What is the purpose of your rejoinder testimony?**

25 **A-2 The purpose of my rejoinder testimony is to respond to the Staff Surrebuttal**
26 **testimony filed on June 13, 2014. I will summarize and highlight areas where the**
27 **company continues to disagree with the Staff recommendations.**

1 **Q-3 Does the Company agree with the Staff Surrebuttal adjustments to plant in**
2 **service?**

3 **A-3** No. Staff did little else except correct the errors contained within its direct
4 testimony and completely ignored many of the arguments the Company made in regard to
5 its own adjustments.

6 **Q-4 Please describe the changes made by Staff and Mt. Tipton's continuing**
7 **disagreement with Staff's rate base adjustments?**

8 **A-4** Mt. Tipton still does not agree with the retirement of the Spring Well as this well
9 was not destroyed; only the electrical equipment was damaged. The status and purpose
10 of this well is further discussed in the rebuttal testimony of Michelle Monzillo and should
11 be allowed in rate base for the same reason Staff allowed the 40hp pump. Further, fully
12 depreciated assets have no impact on rates so retirement of this asset would further
13 complicate the bookkeeping process by creating a book to tax difference for an asset that
14 still has value, but is not allowed for ratemaking purposes. The Company has stated that
15 when it has the available funds the well will be put back into service, or when an
16 emergency dictates those repairs must be made as a result of a different water source
17 failure. That sworn testimony should be sufficient.

18 **Q-5 Is that the only continuing disagreement with Staff rate base adjustments?**

19 **A-5** No. As was mentioned in my rebuttal testimony, original Staff Schedule BAB-4
20 shows that the complete amount for both wells that were retired came out of account 307
21 – Wells and Springs. However, page 12 of the Staff Engineering Report attached to the
22 original testimony as exhibit DMH-1 recommends these retirements be removed from
23 three different accounts instead of just account 307. This inconsistency between
24 engineering and analytical Staff was not discussed in its Surrebuttal testimony to explain
25 which Staff members recommended retirement classifications for the wells are correct.
26 Further, Staff states if an issue is not discussed in its Surrebuttal testimony it relies on its
27 direct testimony. The Company requests that Staff clarify this discrepancy for the record
28 so retirements can be properly made.

Q-6 What is the Company opinion of Staff's recommendation regarding the 115 acres of property introduced by Mt. Tipton in its rebuttal testimony?

A-6 We do not agree with Staff's failure to include the entire original cost of the acreage purchased. Docket W-02105A-01-0557, et.al. contains information regarding the sale of Dolan Springs Water Company, Inc. ("Dolan") to Mt. Tipton. As part of that WIFA financed sale approved by the Commission in Decision 64287, Mt. Tipton obtained "115 acres of land around the spring to protect the water source, well sites, & tank sites" for \$170,000. Staff has disallowed over 94% of this amount as not "used and useful" and granted the company \$10,000 of this amount in rate base. Staff's justification for this position is that the minority of the acreage (7 acres of the 115 total) is fenced, therefore the other 108 acres must not be protected and have no value to the customer owners of Mt. Tipton. Staff offers no further information about why a fenced area would offer more protection to the water sources than just land ownership. If the ACC approved this purchase, and allowed WIFA financing for it, then it should be excluded from rate base. The idea that a utility cannot count on recovery of costs from WIFA approved loans and Commissioner Decisions in previous cases is inherently, fundamentally wrong.

Q-7 Does the Company now agree with the amount of accumulated depreciation recommended by Staff?

A-7 Staff adopted the missing depreciation expense and retirements in its Surrebuttal, but as a result of minor plant balance differences, the Spring well retirement, and classification of the Church well retirement, we still differ.

Q-8 Please delineate the differences between the rate base recommended by Mt. Tipton and that by Staff.

A-8 In its Surrebuttal, Staff recommended rate base of \$791,309, and the Company is proposing \$951,309, a difference of exactly \$160,000 as depicted in the table below. As you can see, even though the Company and Staff disagree on amounts in different plant categories and the associated accumulated depreciation, Staff's disallowance of the \$160,000 of land has the largest impact on rate base.

Account	MTWC	Staff	Difference
Land and Land Rights	\$ 179,842	\$ 19,842	\$ 160,000
Structures & Improvements	64,022	70,621	(6,599)
Wells and Springs	382,076	348,390	33,686
Pumping Equipment	116,812	128,541	(11,729)
Accumulated Depreciation	(1,065,588)	(1,050,230)	(15,358)
Total Rate Base Difference			\$ 160,000

Q-9 What are Mt. Tipton's recommendations regarding plant and rate base in its Rejoinder testimony?

A-9 Mt. Tipton continues to propose its rate base as reflected on Rebuttal Schedule B-1 of \$951,309 (not the \$755,229 reflected on Staff Surrebuttal Schedule BAB-1) which leaves the Spring well unretired, retires the Church well per the engineering report, and includes the full value of the land.

Q-10 Has the Company made changes to the Rebuttal Schedule C-1 and the recommended revenue amount?

A-10 No. With the exception of the property tax surcharge, the Mt. Tipton has not changed its position from the Rebuttal testimony filed regarding rate base, the revenue requirement, and the rate design.

Q-11 Looking at Surrebuttal Schedule BAB-10, Staff is recommending \$364,555 for total revenue and \$287,403 for operating expenses. How does this compare to the Company Rebuttal position?

A-11 The operating expense amounts are very close, as the Company proposed \$289,860, which is a decrease of \$2,457. Mt. Tipton recommended \$377,103 for total operating revenue (without the surcharge), and Staff reduced it by \$12,548, for a cumulative difference of \$15,005 to the Company's detriment. Perhaps ironically, when the Staff revised rate of return on rate base of 9.75% is applied to the \$160,000 Staff reduction to rate base, the result is \$15,600. Even if the company requested rate of return of 9.17% (which was based upon a cash flow to revenue amount of 9%) was applied to

1 the \$160,000, that \$14,672 additional revenue would be close enough to the Company
2 proposal.

3 **Q-12 Does this mean that the Company agrees with the expenses but not the**
4 **revenue?**

5 **A-12** No, however inclusion of the land and the associated return would give this
6 customer owned utility the means to operate that it needs. Staff continues to recommend
7 future depreciation expense on plant assets that the Company has disclosed are fully
8 depreciated. However, this overstatement negates the impact of the punishing reduction
9 to purchased power, but creates longer term bookkeeping problems for a small, rural
10 water company that wants to operate on a limited budget. To be clear, the Company
11 disagrees with the purchased power adjustment because it is an undue punishment.

12 **Q-13 Did Staff make a change to its gross revenue conversion factor ("GRCF")**
13 **from its Direct testimony?**

14 **A-13** Yes. Per Schedule BAB-2 from its Direct testimony, the Staff GRCF was
15 101.78% and per Surrebuttal Schedule BAB-2 it was 99.87%, which is technically
16 negative, resulting in a lower revenue requirement albeit minimal.

17 **Q-14 What other amounts changed from Staff Direct testimony to Surrebuttal?**

18 **A-14** The Rate of Return decreased from 14.40% to 9.75% and the required increase
19 changed from 5.75% to 7.35%. Staff reduced the rate of return by 4.65% to keep the
20 revenue increase to 1.6%. This appears just to be gamesmanship of numbers. In addition
21 to the small amount of revenue increase that resulted from a substantial decrease to
22 accumulated depreciation, all of this additional revenue comes from the highest tiers of
23 the smallest meter sizes, resulting in a wide array of rates that will complicate the billing
24 process.

25 **Q-15 What about the DSC amounts both with the surcharge and without?**

26 **A-15** As reflected on Surrebuttal Schedule BAB-17, line 52, the DSC for Mt. Tipton
27 without the surcharge is 1.25, and with the property tax surcharge the DSC is 1.11. This
28 is an increase from the 1.20 and 1.07 DSC ratios proposed by Staff in its Direct

1 testimony. However, Staff does not explain why once the surcharge is included in
2 revenue the DSC fails to meet even the minimum WIFA standard. This is why the
3 Company believes its position fair and equitable on all parts for its owner customers as
4 well as the overall health of the system.

5 **Q-16 Please reiterate the Company position on the property tax surcharge**
6 **calculation.**

7 **A-16** A large surcharge for a 5/8 inch customer would create a hardship on the customer
8 base, resulting in either further loss of customers or decreased usage. As explained in the
9 testimony of Ms. Monzillo, the infrastructure is quite old and is in danger of failure at any
10 time which could result in a large expenditure. For a utility that is “owned” by the
11 customers that receive service from it and elect the people to run it, it is a much better
12 strategy to allow more of an increase to the base rates than recommended by Staff, and a
13 longer repayment period for the past due property taxes.

14 **Q-17 Did the Company change the amount of the property tax surcharge in its**
15 **Rejoinder testimony?**

16 **A-17** Yes. Mt. Tipton’s intent has always been for the surcharge to be as low as
17 possible for a 5/8 inch meter, but still pay off the years old property tax obligations in a
18 timely fashion without hurting the customers and skimping on system costs. Rejoinder
19 Schedule 2 projects the amount of interest that will continue to accrue on the tax
20 obligation while the Company is collecting the surcharge, but cannot yet pay in full in
21 addition to the projected amount of surcharge that will be collected and when liens can be
22 paid off. The revised surcharge amounts the Company requests begin at \$10.15 per
23 month and will continue for 32 months. Surcharge amounts by meter size and the proof
24 of amounts collected to satisfy the past due property taxes are on Rejoinder Schedule 1.

25 **Q-18 What are the Company’s recommended rates from the base rates only?**

26 **A-18** Mt. Tipton’s recommended rates have not changed and are reflected on Rebuttal
27 Schedule H-3, Pages 1 and 2. The 5/8 by 3/4 inch residential meters make up the largest
28 class of users. The 5/8 by 3/4 inch residential meter class will experience an average

1 increase of 11.97% (without the surcharge) as depicted on Rebuttal Schedule H-1. Based
2 upon average usage of 3,657 gallons per month, the monthly bill for these customers will
3 increase \$4.38, from \$33.40 to \$37.79, or 13.12%. That is an increase of \$52.56 per year
4 for the average user in this meter size. In addition, the Company wishes for simplicity to
5 maintain a tier structure that is the same for all meter sizes.

6 **Q-19 What is the impact of the Company's revised recommended rates when the**
7 **property tax surcharge is included?**

8 **A-19** Based upon average usage of 3,657 gallons per month, once the surcharge is
9 included, the monthly bill for these customers will increase \$14.53, from \$33.40 to
10 \$47.93, or 43.50%. That is an increase of \$174.36 per year for the average user in this
11 meter size.

12 **Q-20 Is there another reason why Mt. Tipton wants to keep the property tax**
13 **surcharge lower and include more revenue in the base rates?**

14 **A-20** Yes. Per Decision 72001, the revenue requirement adopted was \$356,490, of
15 which \$324,920 was metered water revenue. Mt. Tipton's metered water revenue during
16 2011, 2012 and the test year was \$322,237, \$310,396 and \$312,811 respectively. The
17 Company has not met its metered water revenue target since these rates have been in
18 effect. In fact, Mt. Tipton has not even earned total revenue that hits the revenue target of
19 \$356,490 including other revenue and the coin machine. It is this inability to meet its
20 revenue requirement that has in part precluded Mt. Tipton from being able to pay a
21 property tax obligation that was created during a time when the Company was managed
22 by a different group of people.

23 **Q-21 Moving to Surrebuttal Schedule BAB-18, please describe the issues with Staff**
24 **rate design and how they relate to the revenue requirement.**

25 **A-21** Based on that schedule, all of the additional increase that Staff is recommending is
26 coming from the top two tiers of the two smallest meter sizes. This schedule also is not
27 clear on what commodity rates are to be charged for each meter size as there are amounts
28

for each meter size in the Staff recommended column as well as a "catch all" for all meter sizes.

Q-22 Does Staff's recommended base rates per Surrebuttal Schedule BAB-18 generate the Staff recommended metered water sales of \$337,772 per Surrebuttal Schedule BAB-10?

A-22 No. Based on the bill count filed with the application, Staff rates generate only \$334,375, which is a deficiency of \$3,397. It is for this reason and many more that the Company feels its case is more detailed, accurate and reasonable, and why its proposed rate base, revenue requirement, base rates and surcharge should be adopted. The table below depicts the revenue generated by Staff rates by meter size and category based upon the billing distribution filed with the original application.

Revenue Generated by Staff Recommended Rates	Amount
5/8" by 3/4" Residential	\$ 282,056
5/8" by 3/4" Commercial	23,841
1" Residential	1,262
1" Commercial	1,279
1.5" Commercial	1,136
2" Commercial	6,124
4" Commercial	6,684
Bulk Sales	11,597
Sprinkler Fees	120
Fire Dept - Non Potable	276
Total	\$ 334,375
Staff Recommended Metered Water Revenue	337,772
Revenue Shortage	\$ (3,397)

Q-23 Does this conclude your testimony?

A-23 Yes.